

THE PUBLIC SERVICE COMMISSION

OF

SOUTH CAROLINA

DOCKET No.: 2003-277-S

December 18, 2003

**Application of J. C. Cox Utilities, Inc. for a
Rate increase for the Forest Hills Sewer System
Williamston, South Carolina**

PREFILED DIRECT TESTIMONY

OF

ROBERT J. ELLISON

1 **Q. Please state your name and address.**

2 A. Robert J. Ellison, 35 Lester Road, Williamston, South Carolina 29697.

3 **Q. Mr. Ellison, are you associated with J. C. Cox Utilities, Inc. and, if so,**
4 **in what capacity?**

5 A. Yes, I am the president of J. C. Cox Utilities, Inc. and its sole shareholder.

6 **Q. Please describe the services that J. C. Cox Utilities, Inc. provides.**

7 A. J. C. Cox Utilities, Inc. provides sanitary sewer service to the thirty-three (33)
8 residents of the Forest Hills Subdivision located near the town of Williamston in
9 Anderson County, South Carolina. The wastewater treatment system, owned and
10 operated by J. C. Cox Utilities, Inc. consists of a series of sewage collection lines
11 leading to an aerobic wastewater treatment lagoon.

12 **Q. How long have you owned J. C. Cox Utilities, Inc. and under what**
13 **circumstances did you buy the utility?**

14 A. I bought the shares of J. C. Cox Utilities, Inc. in June of 1996 from its owner,
15 J. C. Cox, Jr. At the same time, my uncle James T. Ellison and I bought
16 fifty-five (55) undeveloped lots in the Forest Hills Subdivision. At the time
17 I purchased J.C. Cox Utilities, Inc. the wastewater treatment lagoon was
18 providing sanitary sewer service to 33 homes in the Forest Hills Subdivision.
19 The wastewater treatment system in place in 1996 is essentially unchanged
20 today and there has been no development in the Forest Hills Subdivision
21 since 1996.

22 **Q. Does J. C. Cox Utilities, Inc. operate at a profit?**

23 A. No. J. C. Cox Utilities, Inc. has not been profitable since it was purchased. In

1 fact., J. C. Cox Utilities, Inc. lost \$12,251.00 in 1997; \$19,229.00 in 1998;
2 \$16,184.00 in 1999; \$19,682.00 in 2000; \$13,022.00 in 2001 and \$26,781.50 in
3 2002.

4 **Q. When purchased by J. C. Cox Utilities, Inc. was the wastewater treatment**
5 **lagoon approved and permitted by the South Carolina Department of Health**
6 **& Environmental Control (which I will hereafter refer to as DHEC)?**

7 A. Yes, sir.

8 **Q. What is the status of the DHEC permit today?**

9 A. The discharge permit is held in the name of J. C. Cox Utilities, Inc. DHEC has
10 permitted J. C. Cox Utilities, Inc. to accept and treat wastewater in an amount
11 sufficient to serve only the 33 homes in Forest Hills, which leaves no opportunity
12 for future development of the remaining 55 lots in the Forest Hills subdivision
13 unless septic tanks are installed. The utility continues to operate the wastewater
14 lagoon to this day. However, DHEC now claims that the wastewater lagoon is
15 inadequate. After a number of alleged violations of its discharge permit, DHEC
16 pressed J. C. Cox Utilities, Inc. to agree to a consent order requiring J. C. Cox
17 Utilities, Inc. to eliminate the wastewater treatment lagoon either by connecting
18 the sanitary sewer system to a regional sewer provider or by constructing a
19 wastewater treatment plant.

20 **Q. What efforts has J. C. Cox Utilities, Inc. made to comply with the DHEC**
21 **Order?**

22 A. J. C. Cox Utilities, Inc. hired the engineering firm of Goldie & Associates of
23 Seneca, South Carolina, (which I will refer to as Goldie Engineers) to prepare a

1 preliminary engineering report for the design of the improvements necessary to
2 comply with the DHEC order. In April of 2002, Goldie Engineers identified the
3 options available to J. C. Cox Utilities, Inc. to comply with the DHEC Order.
4 The options were: (1) J. C. Cox Utilities, Inc. retaining responsibility for the
5 system; (2) the installation of septic tanks for the current residents and the closure
6 of the lagoon; (3) the City of Williamston taking over the collections system and
7 lagoon; (4) the installation of a lift station with the City taking ownership of the
8 system, and the closure of the lagoon; and (5) the sale of the system to another
9 utility with the City accepting sewer through a master meter and the closure of the
10 lagoon.

11 **Q. Which option did Goldie Engineers recommend as the most viable and**
12 **describe the basis of the engineer's recommendation.**

13 The engineer recommended that J. C. Cox Utilities, Inc. install a sewage lift
14 station which would pump the sewage to a City of Williamston manhole, at which
15 point the City would accept and treat the wastewater. The utility would benefit by
16 closing the lagoon and pumping the wastewater to the City of Williamston, thus
17 removing itself from the responsibilities and costs of operating, repairing and
18 upgrading the lagoon system. The City of Williamston would benefit from the
19 revenue derived by adding to its system the 33 existing customers and potentially
20 an additional 55 customers when the Forest Hills Subdivision is built out. The
21 cost of installing the lift station in April of 2002 would have been \$107,000.00,
22 which J. C. Cox Utilities, Inc. was willing to pay.

23 **Q. What were the weaknesses of the remaining options?**

1 A. First, although J. C. Cox Utilities, Inc. was prepared to install septic tanks at its
2 expense for the existing 33 customers, DHEC would not permit septic tanks.
3 Second, the lagoon itself would require expensive upgrades and repairs and, in
4 any event, DHEC would not permit J. C. Cox Utilities, Inc. to continue to operate
5 the lagoon. Last, J. C. Cox Utilities, Inc. would certainly be willing to sell the
6 system but has no buyer.

7 **Q. How would J. C. Cox Utilities, Inc. intend to finance the cost of construction**
8 **of a lift station which cost is \$107,000.00?**

9 A. J. C. Cox Utilities, Inc. would have to borrow \$107,000.00 and has made
10 arrangements to borrow that amount.

11 **Q. Did J. C. Cox Utilities, Inc. ask the City of Williamston to accept the**
12 **engineer's recommendation and, if so, what was the City's response?**

13 A. Yes. J. C. Cox Utilities, Inc. made its request to the City of Williamston to accept
14 the wastewater in August of 2001. Since the initial request, the City has been
15 provided with the engineering report and all of their questions have been
16 answered. When the City of Williamston objected to using its own capacity in its
17 treatment plant to accept wastewater from the Forest Hills Subdivision, Anderson
18 County, which owns capacity in the City's treatment plant, agreed to sell J. C.
19 Cox Utilities, Inc. capacity sufficient to treat the wastewater from the Forest Hills
20 Subdivision. In fact, in November of 2002, representatives of J. C. Cox Utilities,
21 Inc. attended a City Council meeting to plead its case. Representatives of DHEC,
22 the South Carolina Public Service Commission and the County of Anderson
23 attended the City Council meeting, speaking on behalf of J. C. Cox Utilities, Inc.

1 and in support of the proposal of its engineer. In spite of our best efforts and the
2 assistance of others, the City has thus far refused the request of J. C. Cox Utilities,
3 Inc.

4 **Q. What are the prospects for replacing the lagoon by building a wastewater**
5 **treatment plant?**

6 A. I am advised that the cost of building a wastewater treatment plant for the 33
7 residents of Forest Hills Subdivision will be approximately \$500,000.00 an
8 amount DHEC acknowledges as being correct.

9 **Q. How would J. C. Cox Utilities, Inc. intend to afford the cost of a wastewater**
10 **treatment plant costing \$500,000.00?**

11 A. J. C. Cox Utilities, Inc. could simply not afford that cost.

12 **Q. What relief is J. C. Cox Utilities, Inc. asking this Commission to grant it in**
13 **this proceeding and why?**

14 A. J. C. Cox Utilities, Inc. has made every effort to fulfill its responsibilities to
15 provide sewer service. DHEC, however, will not permit J. C. Cox Utilities, Inc.
16 continue to operate the lagoon and has given J. C. Cox Utilities, Inc. two options,
17 neither of which is now realistic. J. C. Cox Utilities, Inc. is willing to spend
18 \$107,000.00 to build a lift station and other improvements to connect its system to
19 that of the City of Williamston. The City is eligible for public grant funding to
20 defray certain of its cost of improvements to its sanitary sewer system created by
21 accepting the wastewater from J. C. Cox Utilities, Inc. In the final analysis, the
22 City of Williamston as a regional provider is in a better position to accept and
23 treat the wastewater treatment system of the Forest Hills Subdivision at a

1 reasonable rate. In spite of the time, effort and money J. C. Cox Utilities, Inc.
2 has spent and is prepared to spend to connect the wastewater treatment system
3 from the Forest Hills Subdivision to the City of Williamston, the City has refused
4 to accept it. On the other hand, DHEC expects J. C. Cox Utilities, Inc. to build a
5 wastewater treatment plant at a cost that is excessive if used to only serve 33
6 customers. Essentially, J. C. Cox Utilities, Inc. has no other realistic option for
7 providing sewer service. J. C. Cox Utilities, Inc. is requesting that the South
8 Carolina Public Service Commission permit it to raise its rates and charges in
9 order to continue providing sanitary sewer service to its customers.

10 **Q Mr. Ellison, did J. C. Cox Utilities, Inc. prior to this application for a rate**
11 **increase, consider abandoning its operations to provide sewage service?**

12 A. Yes, in 2002 J. C. Cox Utilities, Inc. filed an application before this commission
13 for abandonment. Subsequently J. C. Cox Utilities, Inc. reconsidered and
14 withdrew the application.

15 **Q. What changed the corporate decision to abandon the system and request a**
16 **rate increase to continue operations expected by DHEC?**

17 A. After many meetings with DHEC, representatives from the City of Williamston,
18 Goldie Engineers and our Certified Public Accountant, J. C. Cox Utilities, Inc.
19 determined that with appropriate rate adjustments, our operations could and
20 should be continued. Importantly J. C. Cox Utilities, Inc. also sought and obtained
21 permission from DHEC to install septic tanks, to develop and sell the remaining
22 lots in the Forest Hills subdivision.

23 **Q. Do you wish to incorporate by reference any documents into your testimony?**

1 A. Yes. I wish to incorporate by reference the underlying Application filed in this
2 proceeding and its associated exhibits.

3 **Q. Are you familiar with the Statement of Income and Expenses for year ended**
4 **December 31, 2002 for J. C. Cox Utilities, Inc. which is Exhibit #3(a) to J. C.**
5 **Cox's Utilities, Inc. application in this case?**

6 A. Yes. That document was prepared from the financial records maintained by the
7 company.

8 **Q. Does that document accurately reflect the financial information for the**
9 **company for the year ended December 31, 2002?**

10 A. Yes. J. C. Cox Utilities, Inc. total expenses were \$25,680.00 and net losses totaled
11 \$19,139.00.

12 **Q. Does Exhibit #3(b) which reflects a five year history of gross receipts from**
13 **customers, expenses and net operating losses for years 1997 through 2001?**

14 A. Yes. That is a correct representation based upon the records of the company.

15 **Q. What has been the total net operating loss to J. C. Cox Utilities, Inc. sewage**
16 **system for the years 1997 through 2002 as tallied in Exhibit #3(a) and #3(b)?**

17 A. Unfortunately, \$99,507.00. These losses best explain the financial frustration and
18 necessity for adequate rates to cover the operating expenses.

19 **Q. Are you also familiar with Exhibit #4 to J. C. Cox Utilities, Inc. application**
20 **which shows the company's proposed adjustments to test year expenses and**
21 **the revenue effect of the company's proposed rate increase?**

22 A. Yes. I assisted in the furnishing of the proposed adjustments to expenses as well
23 as the projections of the impact on revenues of the rate increase.

1 **Q. Please describe the significant adjustments to expenses which the company**
2 **has included in Exhibit #4 to its application. Feel free to explain your**
3 **answer.**

4 A. First, there is an increase of \$8,280.00 which will be required for plant
5 maintenance. J. C. Cox Utilities, Inc. also has substantial engineering expenses
6 which represents the most significant item within the legal and professional
7 category. Actual legal expenses to be amortized as rate expense as well as
8 accounting fees over a three year period will probably not exceed \$19,000.00 to
9 \$21,000.00. Depreciation expense doubles from \$5,132.00 to \$10,632.00. The
10 bulk of expenses for legal and professional relates to some \$99,507.00 which had
11 to be borrowed to pay for engineering reports.

12 **Q. Mr. Ellison, are you indicating that the increases for J. C. Cox Utilities, Inc.,**
13 **while substantial, are necessary for it to continue operations?**

14 A. Yes. J. C. Cox Utilities, Inc. in Exhibit #8(a) and #8(b) has provided cost
15 justifications as projected by Goldie & Associates, the company's engineers.
16 Even if J. C. Cox Utilities, Inc. is allowed to construct a lift station and access the
17 City of Williamston, the cost is estimated to require \$82.82 per month for each
18 customer. Obviously going from a rate change of \$14.85 per customer to a new
19 rate of \$82.82 is substantial. The only other option, expected by DHEC is for J.
20 C. Cox Utilities, Inc. to build a new wastewater treatment system. The rates
21 would necessitate a rate increase per month to \$223.04. If J. C. Cox Utilities, Inc.
22 is not allowed to access the City of Williamston, it nevertheless is asking the
23 Public Service Commission to approve the lower rate increase to \$82.82 monthly

1 which is necessary, fair and would allow J. C. Cox Utilities, Inc. to operate closer
2 to a break even until DHEC or the City of Williamston allow additional
3 cooperation. According to our financial evidence, the facts are that J. C. Cox
4 Utilities, Inc. will continue to operate at a deficit even with the increase to the
5 \$82.82 monthly charge requested. We believe that the requested rates are fair and
6 reasonable based upon the increasing regulatory and environmental pressures
7 which J. C. Cox Utilities, Inc. is being subjected to by DHEC. Absent a
8 substantial increase in the rates to be charged, J. C. Cox Utilities, Inc. will be
9 subject to a financial disaster and the customers will experience additional
10 uncertainty for service if not additional cost beyond that projected by this request
11 for relief in rates.

12 **Q. Does that conclude your testimony?**

13 **A. Yes, it does.**